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Bayshore  
PETROLEUM CORP.

2004



For the initial operations ended December 31, 2004.

Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements ended December 31, 2004. The financial conditions and results of operations of the Company includes information up to April 22, 2005.

### **Basis of Presentation**

The financial statements and related notes have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The reporting and measurement currency are expressed in Canadian dollars.

There are no comparatives to prior reporting periods as this report covers the initial period of the Company.

### **Description of the Business**

Bayshore Petroleum Corporation ("Bayshore" or the "Company") was incorporated under the Business Corporations Act (Alberta) on October 22, 2003. However no activity was initiated until March 1, 2004.

The Company is a Capital Pool Company created pursuant to the CPC Policy. The principle business of the Company is the identification and evaluation of assets or businesses with the intent of completing a Qualifying Transaction. Any potential Qualifying Transaction must be approved by the Exchange.

### **Financings**

During the period, the Company completed an issuance for cash of 2,000,000 common shares for a total consideration of \$200,000.

The issued and outstanding common shares will be held in escrow pursuant to the terms of an Escrow Agreement and will be released from escrow in stages over a period of three years from the date of acceptance by the Exchange of the Qualifying Transaction.

### **Deferred Share Issue Costs**

Deferred share issue cost of \$28,443 relates to expenditures incurred in connection with the Company's public offering (see Subsequent Events) and will be charged against share capital upon issuance of shares.

### **General and Administrative Expenditures**

For the period ending December 31, 2004, Bayshore's general and administrative expenditures were \$9,021 consisting mostly of professional fees. The Company employs no staff but, from time to time, will employ the services of consultants.

### **Liquidity and Solvency**

At December 31, 2004, Bayshore had working capital of \$164,065 and had incurred \$28,443 in deferred share issue costs. The Company had no long-term debt and no available bank line. Current resources should be sufficient to fulfill the Company's present obligations.

### **Subsequent Event**

Pursuant to a prospectus dated November 18, 2004 and an Agency Agreement dated November 10, 2004, the Company offered 1,500,000 Common Shares at \$0.20 per share to the public. On February 25, 2005, the Company completed its Initial Public Offering for gross proceeds of \$300,000. The cost of the issue, including the agent's commission of \$30,000 and expenses, the listing fee and other related expenses of the offering are estimated to be approximately \$70,000.

Subsequent to December 31, 2004, the Company granted an aggregate of 350,000 options to purchase common shares which may be exercised from issuance at a price of \$0.20 per share expiring February 25, 2010.

The common shares of Bayshore commenced trading on the TSX Venture Exchange on March 8, 2005 under the trading symbol of "BSH.P".

### **Outlook**

Bayshore is optimistic in completing its Qualifying Transaction in the future.

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## **Auditors' Report**

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To the Shareholders  
Bayshore Petroleum Corp.

We have audited the balance sheet of Bayshore Petroleum Corp. as at December 31, 2004 and the statements of loss and deficit and cash flows for the period from commencement of operations, March 1, 2004 to December 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

**(signed) "Collins Barrow Calgary LLP"**

**CHARTERED ACCOUNTANTS**

Calgary, Alberta  
April 12, 2005

**Bayshore Petroleum Corp.****Balance Sheet****December 31, 2004**

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**Assets**

## Current assets

Cash	\$ 188,695
GST receivable	<u>301</u>
	188,996
Deferred share issue costs (note 3)	<u>28,443</u>
	\$ <u>217,439</u>

**Liabilities**

## Current liabilities

Accounts payable and accrued liabilities	\$ <u>24,931</u>
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**Shareholders' Equity**

Share capital (note 4)	200,000
Deficit	<u>(7,492)</u>
	192,508
	\$ <u>217,439</u>

See accompanying notes

Approved by the Board,

(signed) "Alan M. Tang" \_\_\_\_\_, Director

(signed) "Stuart Y. Chow" \_\_\_\_\_, Director

**Bayshore Petroleum Corp.**

**Statement of Loss and Deficit**

**Period From Commencement of Operations, March 1, 2004 to December 31, 2004**

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Revenue	
Interest	\$ <u>1,529</u>
Expenses	
General and administrative	<u>9,021</u>
Net loss, being deficit, end of period	\$ <u>(7,492)</u>
Net loss per share - basic and diluted (note 4)	\$ <u>(0.00)</u>

See accompanying notes

**Bayshore Petroleum Corp.****Statement of Cash Flows****Period From Commencement of Operations, March 1, 2004 to December 31, 2004**

Cash provided by (used for):

## Operating activities

Net loss	\$ (7,492)
Change in non-cash working capital	<u>7,699</u>
	<u>207</u>

## Financing activities

Deferred share issue costs	(28,443)
Issue of common shares	200,000
Change in non-cash working capital	<u>16,931</u>
	<u>188,488</u>

Cash outflow	188,695
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Cash, beginning of period	<u>-</u>
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Cash, end of period	\$ <u>188,695</u>
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See accompanying notes

Bayshore Petroleum Corp.  
Notes to Financial Statements  
December 31, 2004

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1. Nature of operations

Bayshore Petroleum Corp. (the "Corporation") was incorporated under the *Business Corporations Act (Alberta)* on October 22, 2003 and is classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). The Corporation proposes to identify and evaluate potential acquisitions or businesses in Canada, and once identified and evaluated, to negotiate an acquisition or participation subject to receipt of shareholder and regulatory approval.

The proposed business of the Corporation involves a high degree of risk and there is no assurance that the Corporation will identify an appropriate business for acquisition or participation within the time limitations permissible under the policies of the Exchange, at which time the Exchange may suspend or de-list the Corporation's shares from trading. Where an acquisition or participation is warranted ("the Qualifying Transaction"), additional funds may be required to enable the Corporation to pursue such an initiative and the Corporation may be unable to obtain such financing on terms which are satisfactory to it. Further, there is no assurance that businesses acquired will be profitable.

2. Summary of significant accounting policies

(a) Deferred Qualifying Transaction costs

Costs associated with the Corporation's efforts to complete its Qualifying Transaction will be accounted for in accordance with the Canadian Institute of Chartered Accountants Handbook Emerging Issues Committee Abstract 94 ("EIC 94") - "Accounting for Corporate Transactions". Under EIC 94, such costs will be deferred until completion of the Qualifying Transaction at which time such costs will be charged to share issue costs and to the Qualifying Transaction as appropriate. If the Qualifying Transaction does not proceed, all deferred costs will be expensed when the Qualifying Transaction is abandoned or it is determined it is likely not to proceed.

(b) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

**Bayshore Petroleum Corp.**  
**Notes to Financial Statements**  
**December 31, 2004**

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(c) Stock-based compensation

The Corporation accounts for all stock-based compensation awarded to directors, officers, employees and consultants using the fair value method. Under this method, cost is measured at the grant date at fair value using an option pricing model that takes into account the exercise price, the expected life of the option, the current price of the underlying stock, the expected volatility of the Corporation's stock, the expected dividends and the risk-free interest rate for the expected term of the option. The compensation cost will be expensed in the statement of loss over the service period, that is the vesting period for employees, and over the performance period for awards provided to non-employees in exchange for goods and services.

(d) Per share amounts

Basic net loss per share is computed by dividing net loss by the weighted average shares outstanding during the period. In calculating diluted net income per share, the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the period.

3. Deferred share issue costs

Deferred share issue costs relate to expenditures incurred in connection with the Corporation's public offering (note 6) and will be charged against share capital upon issuance of the shares.

4. Share capital

(a) Authorized

Unlimited number of Common voting shares

(b) Issued and outstanding

	Number	Stated Value
<b>Common shares</b>		
Issued for cash, being balance at December 31, 2004	<u>2,000,000</u>	<u>\$ 200,000</u>

The issued and outstanding Common Shares will be held in escrow pursuant to the terms of an Escrow Agreement and will be released from escrow in stages over a period of three years from the date of acceptance by the Exchange of the Qualifying Transaction.

# Bayshore Petroleum Corp.

## Notes to Financial Statements

December 31, 2004

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(c) Stock-based compensation

The Corporation has adopted an incentive stock option plan in accordance with the policies of the Exchange (the "Stock Option Plan") for the benefit of directors, officers, employees and consultants of the Corporation whereby a maximum of 10% of the issued and outstanding Common Shares of the Corporation are reserved for issuance. A director or officer of the Corporation may receive options to acquire up to a maximum of 5% of the issued and outstanding common shares of the Corporation on the date of grant and an employee or consultant may receive options to acquire up to a maximum of 2% of the issued and outstanding common shares of the Corporation on the date of grant. The Stock Option Plan provides that the terms of the options and the option price shall be fixed by the directors subject to the price restrictions and other requirements imposed by the Exchange. Stock options granted under the Stock Option Plan may not be exercisable for a period longer than ten years and the exercise price must be paid in full upon exercise of the option.

Subsequent to December 31, 2004, the Corporation granted an aggregate of 350,000 options to purchase Common Shares which may be exercised from issuance at a price of \$0.20 per share expiring February 25, 2010.

(d) Per share amounts

The weighted average number of shares outstanding for the basic and diluted net loss per share calculations for the period ended December 31, 2004 is 2,000,000.

5. Financial instruments

Fair values

The fair value of the Corporation's accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

6. Subsequent event

Pursuant to a prospectus dated November 18, 2004 and an Agency Agreement dated November 10, 2004, the Corporation offered 1,500,000 Common Shares at \$0.20 per share to the public. On February 25, 2005, the Corporation completed its initial public offering for aggregate gross proceeds of \$300,000.

Under the Agency Agreement, the agent was granted a non-transferable option to purchase up to 150,000 Common Shares at \$0.20 per share. The option will be exercisable at any time from issuance to 18 months from the date of listing of the Corporation's shares on the Exchange.

## CORPORATE INFORMATION

### Directors

Alan M. Tang<sup>(1)</sup>  
President & CEO  
Calgary, Alberta

Stuart Y. Chow<sup>(1)</sup>  
Calgary, Alberta

Mark N. Woolstencroft<sup>(1)</sup>  
Calgary, Alberta

(1) Audit Committee

### Auditors

Collins Barrow Calgary LLP  
Calgary, Alberta

### Bankers

Canadian Western Bank  
Calgary, Alberta

### Legal Counsel

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### Officers & Key Personnel

Alan M. Tang  
President & CEO

### Head Office

950, 550 – 6th Avenue S.W.  
Calgary, Alberta T2P 0S2

Phone: (403) 269-2823  
Fax: (403) 269-2897

### Transfer Agent

Olympia Trust Company  
Calgary, Alberta

### Stock Exchange

TSX Venture Exchange  
Trading Symbol - BSH.P